Using the BCG Matrix

In the following mini-case study, you are required to categorize the corporation's business portfolio into the four boxes of the BCG (Boston Consulting Group) model. You then need to decide how the management should allocate $250 million funds available across their strategic business units (SBUs), using the BCG matrix as your guide.

Mini-case Study

The AHI Group is a hypothetical diversified firm operating in Australia. Created less than 20 years ago, AHI has clear goals of strong growth and achieving dominance in all the markets that it chooses to compete in. The corporation now has four SBU's, as follows:

1. A chain of fast-food restaurants (General Manager = Clive)
2. A manufacturer of smart TVs (General Manager = Kristi)
3. A 'branding' marketing consulting firm (General Manager = Therese)
4. A bus travel company (General Manager = Jamie)

It is strategic planning time at AHI and each of the General Managers are outlining their resource requirements with the founders. *(Note: There is $250m available to reinvest into the business.)* The following are some excerpts from the minutes of the meeting:

Clive: *My fast-food division is the only one that is making any real profits – over $500m last year. It's clearly obvious that we need to reinvest in THIS business. Let's expand and grow the profits. As usual, we're facing significant challenges from new competitors, so we really need the investment.*

Kristi: *That's fine, but you've got limited growth potential. OK, we're not making much money now, but this market is too big to not pursue it properly. So, we need the $250m to help catch up to the leaders, as they've got a big start. That way we can generate potential huge future profits.*

Therese: *Kristi, you're too far behind the market leaders. I don't see the sense in throwing money into something where we will probably end up in a weak position anyway. Whereas our branding marketing consulting business is growing really well. We're consulting throughout the world and are considered to be one of the market leaders with our innovative practices. Sure, we've got lots of infrastructure costs, but this is going to be a future goldmine. We'll make more than the fast-food chain in five years' time.*

Jamie: *We're in a tough market that's pretty flat at the moment. I know we only make a few million dollars a year, which is small time for the rest of you. But it's a big market, and we could use the investment to somehow improve our position."*

Student Discussion Questions

1. How would you classify each of AHI's business portfolios using the BCG matrix?
2. How would you allocate the $250m investment across the SBUs?
3. How useful did you find the BCG matrix in helping allocate the $250m investment?
4. Are there circumstances where the BCG matrix could be misleading (that is, suggest an investment in a low potential SBU for instance)?