**IQRA National University**

**Department of Business Administration**

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**Course Title: Marketing Management**

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**Instruction: Submit back the answers in MS Word file with your name and id.**

 **Question 1:**

1. **Discuss different steps of Marketing Research along with it benefits and limitations. (20)**

**With constant change being the norm in marketing and business, one thing remains the same: the need for marketing research. Marketing research is a helpful tool for organizations to better identify marketing strategies and evaluate business decisions using data. Just as you wouldn’t go on vacation without making any plans, you shouldn’t design marketing strategies without backing them with research and data. In short, the marketing research process is the backbone of informed business and marketing decisions.**

**You might be surprised to hear that marketing research is one of the first things that organizations cut from their marketing budgets because of the high time (and sometimes monetary) investment. This is not the best decision, especially when your company is planning to launch a new product or venturing into a new market. As some savvy startups have learned, marketing research doesn’t have to be expensive if you do it right and follow the right process.**

**Let’s review best practices when going through the five-step marketing research process:**

**1. Define the Problem or Opportunity**

**The most important part of the marketing research process is defining the problem. In order to do any research and collect data, you have to know what you are trying to learn from the research. In marketing research, defining the problem you need to solve will determine what information you need and how you can get that information. This will help your organization clarify the overarching problem or opportunity, such as how to best address the loss of market share or how to launch a new product to a specific demographic.**

**Develop questions that will allow you to define your problem (or opportunity), and examine all potential causes so that the research can be whittled down to the information you actually need to solve that problem or determine what action to take regarding an opportunity. Oftentimes, these are questions about who your target market or ideal buyer persona is (for example: “What does our ideal customer look like?”). These might include questions about demographics, what their occupation is, what they like to do in their spare time—anything to help you get a clearer picture of who your ideal buyer persona is. Consider as many variables and potential causes as possible.**

**Data-driven decisions start with good data. Here’s a tactical guide to help teach you How to Do Market Research.**

**2. Develop Your Marketing Research Plan**

**After you’ve examined all potential causes of the problem and have used those questions to boil down exactly what you’re trying to solve, it’s time to build the research plan. Your research plan can be overwhelming to create because it can include any method that will help you answer the research problem or explore an opportunity identified in step one.**

**To help you develop the research plan, let’s review a few techniques for conducting research:**

**Interview prospects and customers. Oftentimes, you get the best feedback by using this tactic because you’re going straight to the source. This might take the form of a focus group or one-on-one interviews. Use your defined research problem to help select the right people to interview.**

**Conduct a survey using SurveyMonkey or another tool.**

**Run user tests on your website or landing page(s). This is a cost-effective approach that can provide a lot of insight and data on how your customers or potential customers behave or respond to something, whether it’s new messaging or branding or a modified product or service you are thinking about offering. Simple A/B tests can go a long way in discovering user behavior. Use heatmapping tools, such as Hotjar or Lucky Orange, and website analytics tools, such as Google Analytics or HubSpot analytics, to track results depending on what data you need to collect.**

**Oftentimes, we do all of this work and gather all of the data—only to realize that we didn’t have to reinvent the wheel because someone had already run a similar, credible study or solved the same problem. That doesn’t mean you don’t need to do any research, but learning about what other organizations have done to solve a problem or seize an opportunity can help you tweak your research study and save you time when considering all of the research options. In marketing research, this is called secondary data because it has been collected by someone else, versus the primary data that you would collect through your own research study.**

**3. Collect Relevant Data and Information**

**In marketing research, most of the data you collect will be quantitative (numbers or data) versus qualitative, which is descriptive and observational. Ideally, you will gather a mix of the two types of data. For example, you might run an A/B test on your website to see if a new pricing tier would bring in more business. In that research study, you might also interview several customers about whether or not the new pricing tier would appeal to them. This way, you’re receiving hard data and qualitative data that provide more color and insight.**

**When collecting data, make sure it’s valid and unbiased. You should never ask a research interviewee, “You think that we should offer a higher pricing tier with additional services, correct?” This type of question is clearly designed to influence the way the person responds. Try asking both open-ended and closed-ended questions (for instance, a multiple-choice question asking what income range best describes you).**

**4. Analyze Data and Report Findings**

**Now that you’ve gathered all of the information you need, it’s time for the fun part: analyzing the data. Although one piece of information or data might jump out at you, it’s important to look for trends as opposed to specific pieces of information. As you’re analyzing your data, don’t try to find patterns based on your assumptions prior to collecting the data.**

**Sometimes, it’s important to write up a summary of the study, including the process that you followed, the results, conclusions, and what steps you recommend taking based on those results. Even if you don’t need a formal marketing research report, be sure that you review the study and results so that you can articulate the recommended course of action. Sharing the charts and data you collected is pointless if it doesn’t lead to action.**

**Was your hypothesis proven wrong? Great—that’s why you do testing and don’t run with assumptions when making decisions that could have a major impact on your organization. It’s always better to take the results as they are than to twist the data to prove yourself right.**

**5. Put Your Research into Action**

**Your research is complete. It’s time to present your findings and take action. Start developing your marketing strategies and campaigns. Put your findings to the test and get going! The biggest takeaway here is that, although this round of research is complete, it’s not over.**

**The problems, business environment, and trends are constantly changing, which means that your research is never over. The trends you discovered through your research are evolving. You should be analyzing your data on a regular basis to see where you can improve. The more you know about your buyer personas, industry, and company, the more successful your marketing efforts and company will be. When you look at it that way, you should start to wonder why so many organizations don’t budget time and resources for marketing research.**

**Of course, there is a lot more to the marketing research process than these five core steps, but these are enough to get you started. Good luck, and be sure to share any tips you have discovered for conducting marketing research!**

**Marketing Research: Concept, Objective, Advantages and Limitations!**

The marketing concept states that the character of the marketing orientated organisation, whether product or service based, profit or non-profit based, is the identification and true delivery of consumers’ needs and wants, more effectively and efficiently than the competition.

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Hence, in a broad sense, marketing management needs to understand the minds of their target markets, their attitudes, feelings, beliefs and value systems. They require a formalised, managerial approach to this most important job. And this entire job is the basic role and purpose of formal marketing research. Marketing research is the systematic, objective and exhaustive search for study of the facts relating to any problem in the field of marketing. It is systematic problem analysis, model building and fact-finding for the purpose of decision-making and control in the marketing of goods and services.

According to American Marketing Association “marketing research is the systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services.” According to Green and Tull, “marketing research is the systematic and objective search for and analysis of information relevant to the identification and solution of any problem in the field of marketing”. Professor Philip Kotler defines marketing research as “Systematic problem analysis, model-building and fact-finding for the purpose of improved decision making and control in the marketing of goods and services.”

**The features of marketing research are:**

**1. Search for data:**

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It is a search for data which are relevant to marketing problems – problems in different functional areas of marketing consumer behaviour, product, sales, distribution channel, pricing, ad and physical distribution.

**2. It is systematic:**

It has to be carried out in a systematic manner rather than haphazard way. The whole process should be planned with a clear objective.

**3. It should be objective:**

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Objectivity is more important in any result. It means that the research is neither carried on to establish an opinion nor is intentionally slanted towards pre-determined results.

**4. It is a process:**

It involves various steps for gathering, recording and analysing of data.

**Objectives of Marketing Research:**

Marketing research may be conducted for different purposes. The main objectives or purposes of marketing research are:

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i) To estimate the potential market for a new product to be introduced in the market.

ii) To know the reactions of the consumers to a product already existing in the market.

iii) To find out the general market conditions and tendencies.

iv) To know the reasons for failure of a product already in the market.

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v) To find out the better methods of distributing the products to consumers.

vi) To know the types of consumers buying a product and their buying motives to know their opinions about the product and to get their suggestion improvement of a product.

vii) To assess the strength and weakness of the competitors.

viii) To know the dimensions of the marketing problems.

ix) To ascertain the distribution methods suited to the product and the

x) To estimate the market share of a firm.

xi) To assess the probable sales volume of a firm.

xii) To assess the reaction of the consumers to the packaging of the firm and to make packaging as attractive as possible.

**Advantages of Marketing Research:**

i. Marketing research helps the management of a firm in planning by providing accurate and up- to-date information about the demands, their changing tastes, attitudes, preferences, buying

ii. It helps the manufacturer to adjust his production according to the conditions of demand.

iii. It helps to establish correlative relationship between the product brand and consumers’ needs and preferences.

iv. It helps the manufacturer to secure economies in the distribution о his products.

v. It makes the marketing of goods efficient and economical by eliminating all type of wastage.

vi. It helps the manufacturer and dealers to find out the best way of approaching the potential

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vii. It helps the manufacturer to find out the defects in the existing product and take the required corrective steps to improve the product.

viii. It helps the manufacturer in finding out the effectiveness of the existing channels of distribution and in finding out the best way of distributing the goods to the ultimate consumers.

ix. It guides the manufacturer in planning his advertising and sales promotion efforts.

x. It is helpful in assessing the effectiveness of advertising programmes.

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xi. It is helpful in evaluating the relative efficiency of the different advertising media.

xii. It is helpful in evaluating selling methods.

xiii. It reveals the causes of consumer resistance.

xiv. It minimises the risks of uncertainties and helps in taking sound decisions.

xv. It reveals the nature of demand for the firm’s product. That is, it indicates whether the demand for the product is constant or seasonal.

xvi. It is helpful in ascertaining the reputation of the firm and its products.

xvii. It helps the firm in determining the range within which its products are to be offered to the consumers. That is, it is helpful in determining the sizes, colours, designs, prices, etc., of the products of the firm.

xviii. It would help the management to know how patents, licensing agreements and other legal restrictions affect the manufacture and sale of the firm’s products.

xix. It is helpful to the management in determining the actual prices and the price ranges.

xx. It is helpful to the management in determining the discount rates.

xxi. It is helpful to the management in ascertaining the price elasticity for its products.

xxii. It helps the firm in knowing the marketing and pricing strategy of competitors.

xxiii. It is helpful in knowing the general conditions prevailing in the mark

xxiv. It is helpful to the management in finding out the size of the market for its products.

xxv. It helps the firm in knowing its market share over various time periods

xxvi. It is quite helpful to a firm in launching a new product.

xxvii. It helps the firm in knowing the transportation, storage and supply requirements of its products.

xxviii. It helps the firm in exploring new uses for its existing products and thereby, increasing the demand for its products.

xxix. It is helpful to a firm in making sales forecasts for its products and thereby, establishing harmonious adjustment between demand and supply of its products.

xxx. It helps the firm in exploring new markets for its products.

**Limitations of Marketing Research:**

**1. It is not a Panacea:**

Marketing Research is not the ultimate solution to all marketing problems. Rather it offers accurate information, which can arrive at suitable decisions to solve problem.

**2. Not an exact science:**

It deals with human behaviour and as such cannot be examined in a controlled environment. There are various and uncontrollable factors which influence marketing forces. This gives scope for wrong conclusions. Hence this leads to marketing research as not being an exact science.

**3. Limitation of time:**

Its process is lengthy and needs long time to complete it. During the period between starting the research and implementation of decisions, the situation and assumptions may have changed drastically which reduces the utility of research report. Decisions based on such report prove to be obsolete and result in false conclusions.

**4. Erroneous findings:**

The complicated problems may not be comprehensively studied and their impact properly analysed by the researcher on account of insufficient fund, time and technique. This leads to erroneous findings, which disappoint the management.

**5. Not an exact tool of forecasting:**

It cannot be used as a foolproof tool of forecasting because there are number of intervening factors between the findings of the research and marketing complex. The forces act and react and interact to give a complex state, which is difficult to be studied.

**6. In experienced research staff:**

It needs great expertise and well-trained and experienced researcher, interviewer and investigator.

**7. Narrow Conception:**

Marketing research is a fact-finding exercise. It is not problem oriented. It is of low and questionable validity.

**8. Involves high cost:**

It is considered as a luxury for the management as it involves high cost.

**9. Limitations of tools and techniques:**

The validity of marketing research is also limited by the limitation of tools and techniques involved.

**10. It is passive:**

Its use and effectiveness largely depends upon the ability of executives to get the most value of it

 **Question 2:**

1. **Discuss different level of Products and Services. (20)**

A product is a bundle of attributes (features, functions, benefits, and uses) that a person receives in an exchange. In essence, the term “product” refers to anything offered by a firm to provide customer satisfaction, tangible or intangible. Thus, a product may be an idea (recycling) , a physical good (a pair of jeans), a service (banking), or any combination of the three.[**[1]**](https://courses.lumenlearning.com/vccs-mkt100-17fa/chapter/reading-defining-product/#footnote-4287-1)

Broadly speaking, products fall into one of two categories: consumer products and business products (also called industrial products and B2B products). Consumer products are purchased by the final consumer. Business products are purchased by other industries or firms and can be classified as *production goods*—i.e., raw materials or component parts used in the production of the final product—or *support goods*—such as machinery, fixed equipment, software systems, and tools that assist in the production process.[**[2]**](https://courses.lumenlearning.com/vccs-mkt100-17fa/chapter/reading-defining-product/#footnote-4287-2) Some products, like computers, for instance, may be both consumer products and business products, depending on who purchases and uses them.

The product fills an important role in the marketing mix because it is the core of the exchange. Does the product provide the features, functions, benefits, and uses that the target customer expects and desires? Throughout our discussion of product we will focus on the target customer. Often companies become excited about their capabilities, technologies, and ideas and forget the perspective of the customer. This leads to investments in product enhancements or new products that don’t provide value to the customer—and, as a result, are unsuccessful.

**Four Levels of the Product**

There are four levels of a product (shown in the figure below): core, tangible, augmented, and promised. Each is important to understand in order to address the customer needs and offer the customer a complete experience.

**The Core Product**

The core product satisfies the most basic need of the customer. For example, a consumer who purchases a healthy snack bar may be seeking health, convenience, or simply hunger relief. A student who buys low-priced, sturdy sneakers may just be seeking footwear. A student on a tight budget who buys top-of-the-line sneakers might be hoping to achieve status. Or, the student might be seeking a sense of freedom by splurging on an item that represents a true sense of style, even though he can’t really afford it. Footwear, status, and freedom are all legitimate core products. The core product is complex because it is so individualized, and, often, vague. The marketer must have a strong understanding of the target customer (and the different segments of target customers) in order to accurately identify the core product.

**The Tangible Product**

Once the core product has been identified, the tangible product becomes important. Tangible means “perceptible by touch,” so the tangible aspects of a product are those that can be touched and held. This idea can be expanded to also include the characteristics of the product that directly touch the buyer in the buying decision. These are the product elements that the customer will use to evaluate and make choices: the product features, quality level, brand name, styling, and packaging. Every product contains these components to a greater or lesser extent, and they are what the consumer uses when evaluating alternatives.

The importance of each aspect of the tangible product will vary across products, situations, and individuals. For example, at age twenty, a consumer might choose a particular brand of new car (core product=transportation) based on features such as gas mileage, styling, and price (choice=Toyota Yaris); at age forty-five, the core product remains the same, while the tangible components such as quality level, power, features, and brand prestige become important (choice=Audi A6).

**The Augmented Product**

Every product is backed up by a host of supporting services. The augmented product includes the tangible product and all of the services that support it. Often, the buyer expects these services and would reject the tangible product if they were not available. For example, if you shop at a department store, you are likely focused on a core and tangible product that centers on the merchandise, but you will still expect the store to have restrooms, escalators, and elevators. Dow Chemical has earned a reputation as a company that will bend over backward in order to service an account. It means that a Dow sales representative will visit a troubled farmer after hours in order to solve a serious problem. This extra service is an integral part of the augmented product and a key to their success.

When the tangible product is a service, there is still an augmented product that includes support services. Westin hotels offer hotel nights with a specific set of features as their tangible product. The augmented product also includes dry cleaning services, concierge services, and shuttle services, among others.

In a world with many strong competitors and few unique products, the augmented product is gaining ground, since it creates additional opportunities to differentiate the product from competitive offerings.

**The Promised Product**

The outer ring of the product is referred to as the *promised product*. Every product has an implied promise, which is a characteristic that is attached to the product over time. The promised product is the long-term result that the customer hopes to achieve by selecting the product. The promised product may be financial—the resale value of a car, home, or property, for example—but it is often more aspirational. The customer hopes to be healthier, happier, more productive, more successful, or enjoy greater status.

Like the core product, the promised product is highly personal. Generally, marketers find that there will be groupings of customers seeking a similar promise but that there is not a single promised product across all customers.

Can the core product and the promised product be the same thing? Yes, they can, but often the the core product is more focused on the immediate need and the promised product has a longer-term element.

**Levels of Service Product: Consumer Benefit, Service Concept and Offer!**

Central to any definition of a service product, from a marketing viewpoint, is the linkage that must be established between the service products from the consumers’ or users’ viewpoint. Service marketing organizations may find it helpful in tracing this linkage to analyse their service product (s) at three levels.

**These levels are:**

(a) The consumer benefit concept

(b) The service concept

(c) The service offer

**1. The Consumer Benefit Concept:**

This terminology is used by Bateson. He argues that it is only from the idea of a consumer benefit that the service concept can be defined. The consumer’s view, so the marketing concept suggests, should be central to the shaping of any good or service for offer. As Bateson says:

“The true nature of a product can be perceived only by the consumer. That is, the manufacturer can specify the function of the product. He can even specify the kinds of psychological benefits that will be offered in advertising. The consumer, however, takes away from the product only that part of the bundle he/she needs at that point of time”.

The clarification, elaboration and translation of the consumer benefit concept poses a number of problems for service marketers. First the services offered should be based upon the needs and benefits sought by consumers and users. But consumers and users may be clear or unclear about what they require, articulate or inarticulate in the expression of their requirements. Difficulties may stem from their ignorance of what to expect, inexperience of what is required or basic inability to elucidate latent need.

Secondly, benefits sought may change over time through good or bad experiences in service use, through new expectations’ sets, through sophistication in service usage and consumption. Thirdly there are practical measurement problems for service marketers in deriving consumer-based measures of the importance of services’ benefits sought, preferences between them and changes in their importance. Also it may be necessary to measure the trade-offs between elements of services offered that consumers are prepared to make.

The definition and monitoring of the consumer benefit however, is of central importance to all service product design and delivery decisions. The constant task of the service marketer is to try to come to grips with what benefits customers seek; benefits which are so central to the success of the service marketing operation, but so elusive to define.

**2. The Service Concept:**

The service concept is the core of the service offering. Two levels of service concept are possible. The ‘general’ service concept refers to the essential product being offered (e.g. a car hire company offers solutions to temporary transportation problems). In addition there will be ‘specific’ service concepts at the core of specific service (e.g. candle-lit dinners or oriental foods for restaurants). The service concept has to be translated into the ‘service formula’.

This translation process, implies not only a clear definition of the service concept (i.e. what consumer benefits is the service firm aiming to serve; which service attributes best express the consumer benefit). It also demands attention to the service process; that is the ways and means the service is produced distributed and consumed; the market segment has to be identified; the organization – client interface has to be organized in a network; the service image has to facilitate clear communication between the service organization and its potential clients.

The service concept is the definition of the offer in terms of the bundle of goods and services sold to the consumer plus the relative importance of this bundle to the consumer. It enables the manager to understand some of the intangibles, elusive and implicit that affect the consumer decision and to design and operate his organization to deliver a total service package that emphasizes the important elements of that package.

**3. The Service offer:**

The service offer is concerned with giving more specific and detailed shape to the basic service concept notion. The shape of the service offer stems from managerial decisions concerned with what service will be provided, when they will be provided, how they will be provided, where they will be provided, who will provide them. Management of the service offer is concerned with making decisions and thinking through the implications of actions affecting at least three components.

**These are:**

(a) Service elements;

(b) Service forms;

(c) Service levels.

**(a) Service Elements:**

The service elements are the ingredients of a total service offer; they are the particular bundle of tangibles and intangibles which compose the service product. Service managers face two particular problems in defining the composition of a service offer.

First there is the difficulty of articulating all of the elements that could make up a service offer. It is usually easier to articulate the tangible elements than the intangible. Secondly there is the difficulty of deciding upon the particular set of elements the service organization will actually use in its service offer.

The management and the marketing of a service operation is largely about the management of the tangible and intangible elements of the service offer. Management must try to control the tangible and intangible elements that make up the service offer to ensure that they conform with standards laid down.

So the cleanliness of a hotel or the size of food portions served in a restaurant is controllable elements of a service. So too is the attention given by an air hostess to passengers or the speed with which, telephones are answered in a car rental branch.

But some elements of a service offer are less controllable. Management can ensure that all guests signing in at a hotel reception desk are formally greeted by the receptionist. There is less control over the warmth of the greeting. Nevertheless management must try to anticipate some of these uncontrollable elements and ensure that the climate of the organization contributes to rather than detracts from the service offer.

**(b) Service Forms:**

Service elements are offered to the marketplace in different forms. Service form is concerned with examining in detail the various options relating to each service element. The particular decision taken on the precise form of each service element will depend upon a number of factors including market requirements, competitors’ policies and the need to obtain balance within, and between, the various elements that make up the service product offer- what is called ‘cohesiveness and coherence of the set of services offered’.

An additional consideration is to try to achieve the lowest level of complexity from the customer and service marketing organization points of view. Service products with a high degree of complexity are difficult to manage from the service marketers’ perspective (e.g. in terms of quality control, staff knowledge of options) and difficult to understand from the users’ point of view.

**(c) Service Levels:**

**An offer can be viewed at several levels (Table 4.1 and Figure 4.1) as follows:-**

**Core or generic:**

For consumer or industrial products this consists of the basic physical product, i.e. 2 kg of sugar, a packet of self-tapping screws, or a camera. The core elements for a camera, for example, consists of the camera body, the viewer, the winding mechanism, the lens and the other core basic physical components which make up the transactional utility in the form of deposits and withdrawals.

**Expected:**

This consists of the generic product together with the minimal purchase conditions which need to be met. When a customer buys a video cassette recorder they expect an instruction book which explains how to programme it, a warranty for a reasonable period should it break down, and a service network so that it can be repaired.

**Augmented:**

This is the area which enables one offer to be differentiated forms another. For example, IBM has a reputation for excellent customer service although they may not have the most technologically advanced core product. They differentiate by ‘adding value’ to the core, in terms of service reliability and responsiveness.

**Potential:**

This consists of all potential added features and benefits that are or may be of utility to some buyers. The potential for redefinition of the product gives advantages in attracting new users or ‘locking in’ existing customers. This could make it difficult or expensive for customers to switch to another supplier.

Thus a firm’s offer is a complex set of value-based promises. People buy to solve problems and they attach value to any offer in proportion to this perception of its ability to achieve particular ends. In other words, values are assigned by buyers in relationship to the perceived benefits they receive matched against their expectations.

**Question 3:**

1. **What is BCG Matrix? Explain with examples. (10)**

**BCG matrix**

(or growth-share matrix) is a corporate planning tool, which is used to portray firm’s brand portfolio or SBUs on a quadrant along relative market share axis (horizontal axis) and speed of market growth (vertical axis) axis.

**Growth-share matrix**

is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of business brand portfolio and suggest further investment strategies.

Understanding the tool

BCG matrix is a framework created by Boston Consulting Group to evaluate the strategic position of the business brand portfolio and its potential. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and [competitive position](https://strategicmanagementinsight.com/topics/competitive-advantage.html) (relative market share). These two dimensions reveal likely profitability of the business portfolio in terms of cash needed to support that unit and cash generated by it. The general purpose of the analysis is to help understand, which brands the firm should invest in and which ones should be divested.

**Relative market share.** One of the dimensions used to evaluate business portfolio is relative market share. Higher corporate’s market share results in higher cash returns. This is because a firm that produces more, benefits from higher economies of scale and experience curve, which results in higher profits. Nonetheless, it is worth to note that some firms may experience the same benefits with lower production outputs and lower market share.

**Market growth rate.** High market growth rate means higher earnings and sometimes profits but it also consumes lots of cash, which is used as investment to stimulate further growth. Therefore, business units that operate in rapid growth industries are cash users and are worth investing in only when they are expected to grow or maintain market share in the future.

There are four quadrants into which firms brands are classified:

**Dogs.** Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.
Strategic choices: Retrenchment, divestiture, liquidation

**Cash cows.** Cash cows are the most profitable brands and should be “milked” to provide as much cash as possible. The cash gained from “cows” should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.
Strategic choices: Product development, diversification, divestiture, retrenchment

**Stars.** Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog.
Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

**Question marks.** Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not.
Strategic choices: Market penetration, market development, product development, divestiture

BCG matrix quadrants are simplified versions of the reality and cannot be applied blindly. They can help as general investment guidelines but should not change strategic thinking. Business should rely on management judgement, business unit [strengths and weaknesses](https://strategicmanagementinsight.com/tools/swot-analysis-how-to-do-it.html) and [external environment factors](https://strategicmanagementinsight.com/tools/pest-pestel-analysis.html#gathering) to make more reasonable investment decisions.

Advantages and disadvantages

Benefits of the matrix:

* Easy to perform;
* Helps to understand the strategic positions of business portfolio;
* It’s a good starting point for further more thorough analysis.

Growth-share analysis has been heavily criticized for its oversimplification and lack of useful application. Following are the main limitations of the analysis:

* Business can only be classified to four quadrants. It can be confusing to classify an SBU that falls right in the middle.
* It does not define what ‘market’ is. Businesses can be classified as cash cows, while they are actually dogs, or vice versa.
* Does not include other external factors that may change the situation completely.
* Market share and industry growth are not the only factors of profitability. Besides, high market share does not necessarily mean high profits.
* It denies that synergies between different units exist. Dogs can be as important as cash cows to businesses if it helps to achieve competitive advantage for the rest of the company.

Using the tool

Although BCG analysis has lost its importance due to many limitations, it can still be a useful tool if performed by following these steps:

* Step 1. Choose the unit
* Step 2. Define the market
* Step 3. Calculate relative market share
* Step 4. Find out market growth rate
* Step 5. Draw the circles on a matrix

**Step 1. Choose the unit.** BCG matrix can be used to analyze SBUs, separate brands, products or a firm as a unit itself. Which unit will be chosen will have an impact on the whole analysis. Therefore, it is essential to define the unit for which you’ll do the analysis.

**Step 2. Define the market.** Defining the market is one of the most important things to do in this analysis. This is because incorrectly defined market may lead to poor classification. For example, if we would do the analysis for the Daimler’s Mercedes-Benz car brand in the passenger vehicle market it would end up as a dog (it holds less than 20% relative market share), but it would be a cash cow in the luxury car market. It is important to clearly define the market to better understand firm’s portfolio position.

**Step 3. Calculate relative market share.** Relative market share can be calculated in terms of revenues or market share. It is calculated by dividing your own brand’s market share (revenues) by the market share (or revenues) of your largest competitor in that industry. For example, if your competitor’s market share in refrigerator’s industry was 25% and your firm’s brand market share was 10% in the same year, your relative market share would be only 0.4. Relative market share is given on x-axis. It’s top left corner is set at 1, midpoint at 0.5 and top right corner at 0 (see the example below for this).



**Step 4. Find out market growth rate.** The industry growth rate can be found in industry reports, which are usually available online for free. It can also be calculated by looking at average revenue growth of the leading industry firms. Market growth rate is measured in percentage terms. The midpoint of the y-axis is usually set at 10% growth rate, but this can vary. Some industries grow for years but at average rate of 1 or 2% per year. Therefore, when doing the analysis you should find out what growth rate is seen as significant (midpoint) to separate cash cows from stars and question marks from dogs.

**Step 5. Draw the circles on a matrix.** After calculating all the measures, you should be able to plot your brands on the matrix. You should do this by drawing a circle for each brand. The size of the circle should correspond to the proportion of business revenue generated by that brand.