Managing Marketing in 21^{st} century

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Based on Noel Capon’s book

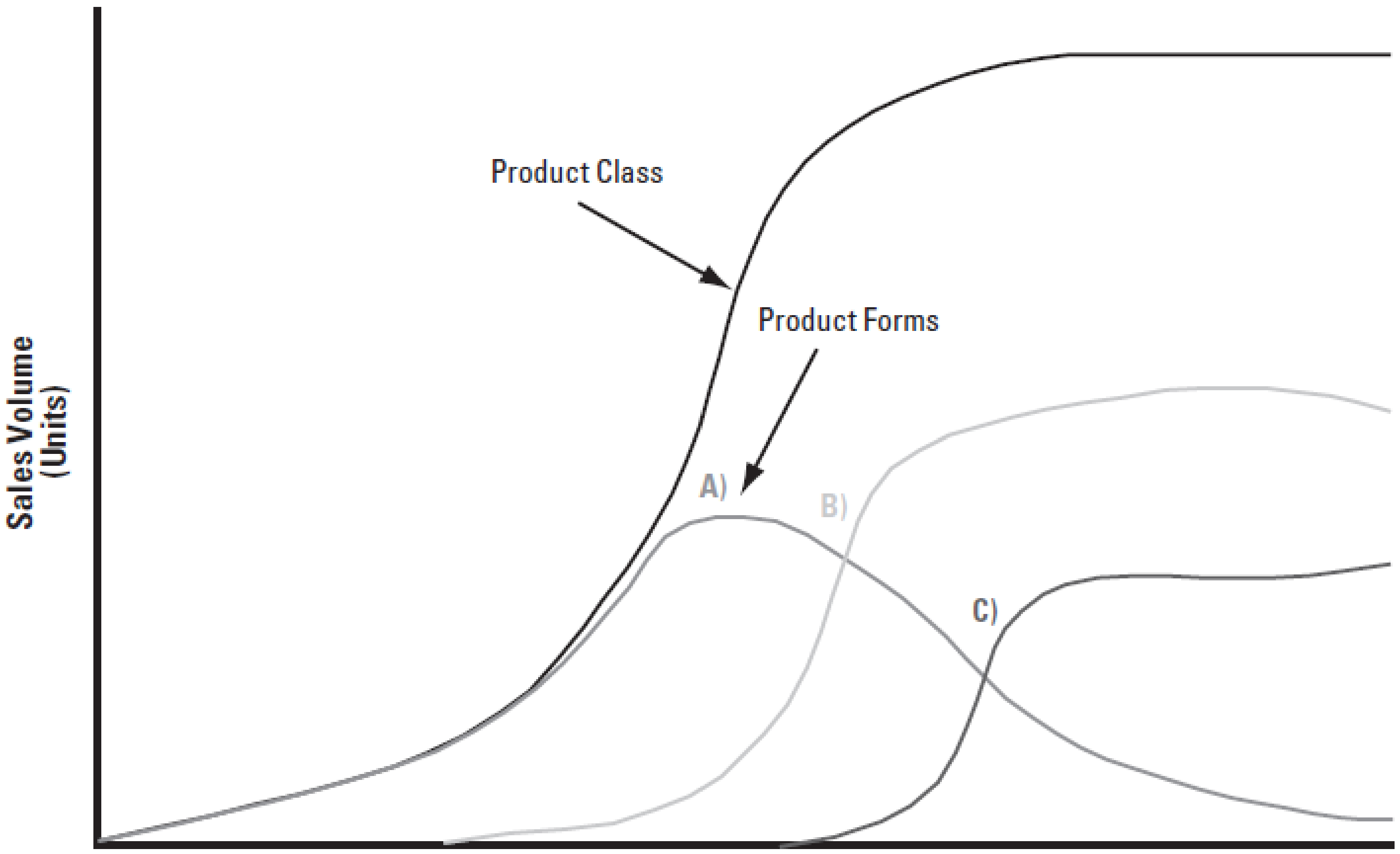
Chapter 12:
Managing the Product Line

Product portfolio

- When a product starts generating cash, it’s time to invest it in new products

Imbalanced product portfolio:

- Starting too many products at once
- Not starting any new product



Product’s financial analysis methods

- ROI: compare future’s ROI with hurdle rate
- Shorter payback
- NPV: calculated based on company’s cost of capital as discount factor
- IRR: based on discount rate that equalizes cash inflows and outflows
- EVA (economic value added): opportunity’s annual profit less explicit charge for capital

Advantages and disadvantages of financial approach

Advantages

- Single figure
- Conceptual simplicity
- clarity

Disadvantages

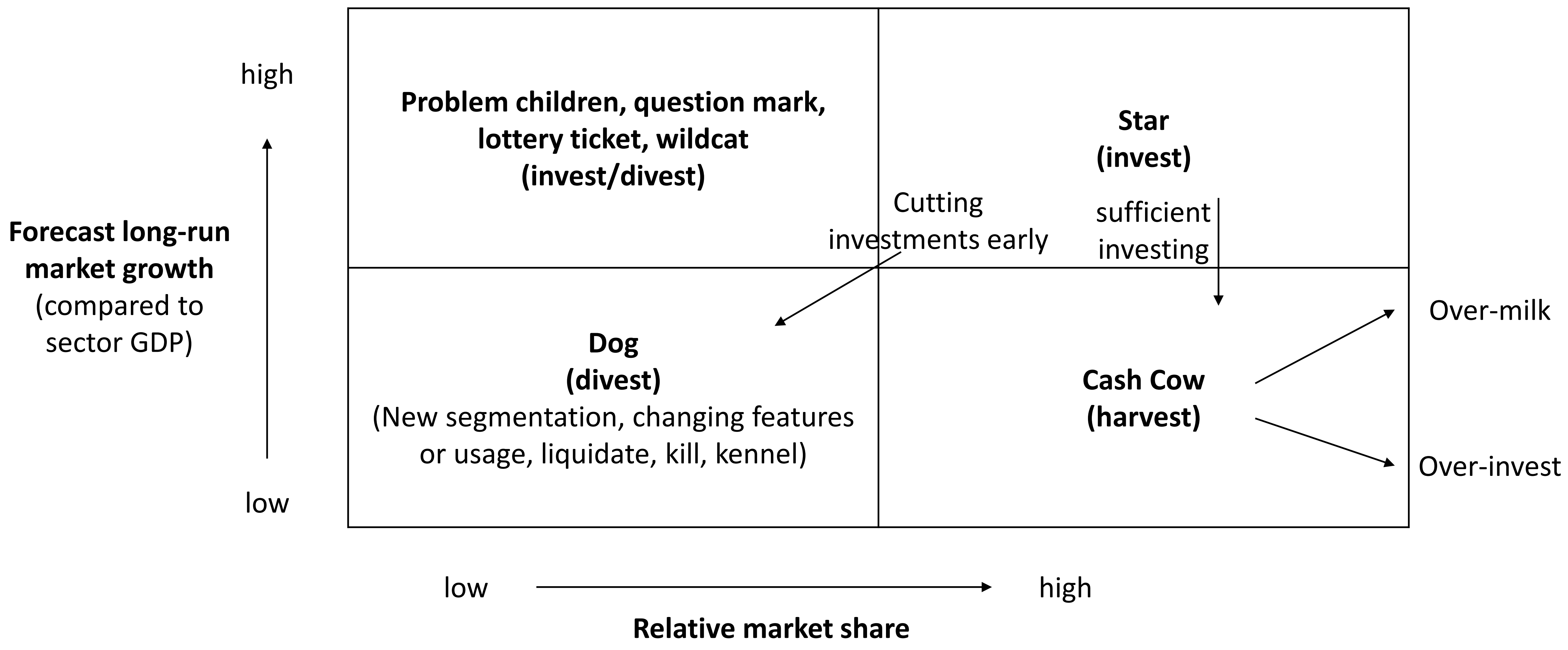
- Uncertainty in estimates
- Internal political dynamics
- Silence on strategic issues and branding
- Insufficient of investment in new opportunities

Portfolio analysis

After financial analysis, answering these questions gives additional information about future product decisions:

What is the expected future market growth rate?	Against which companies will the firm compete?
What is the target market share?	How is technology expected to change?
What is the likely future market structure?	What will be the government's role?
In what ways is the market changing?	Are there legal/regulatory issues to consider?

Growth Share (BCG) matrix



Growth Share (BCG) matrix deficiencies

- There are other important factors other than future market growth opportunity
- Relative market share in growth (not mature) markets is difficult to calculate
- Higher market share does not necessarily represents higher profit
- Small focused firms have lower costs than major players

Multifactor (GE McKinsey) matrix

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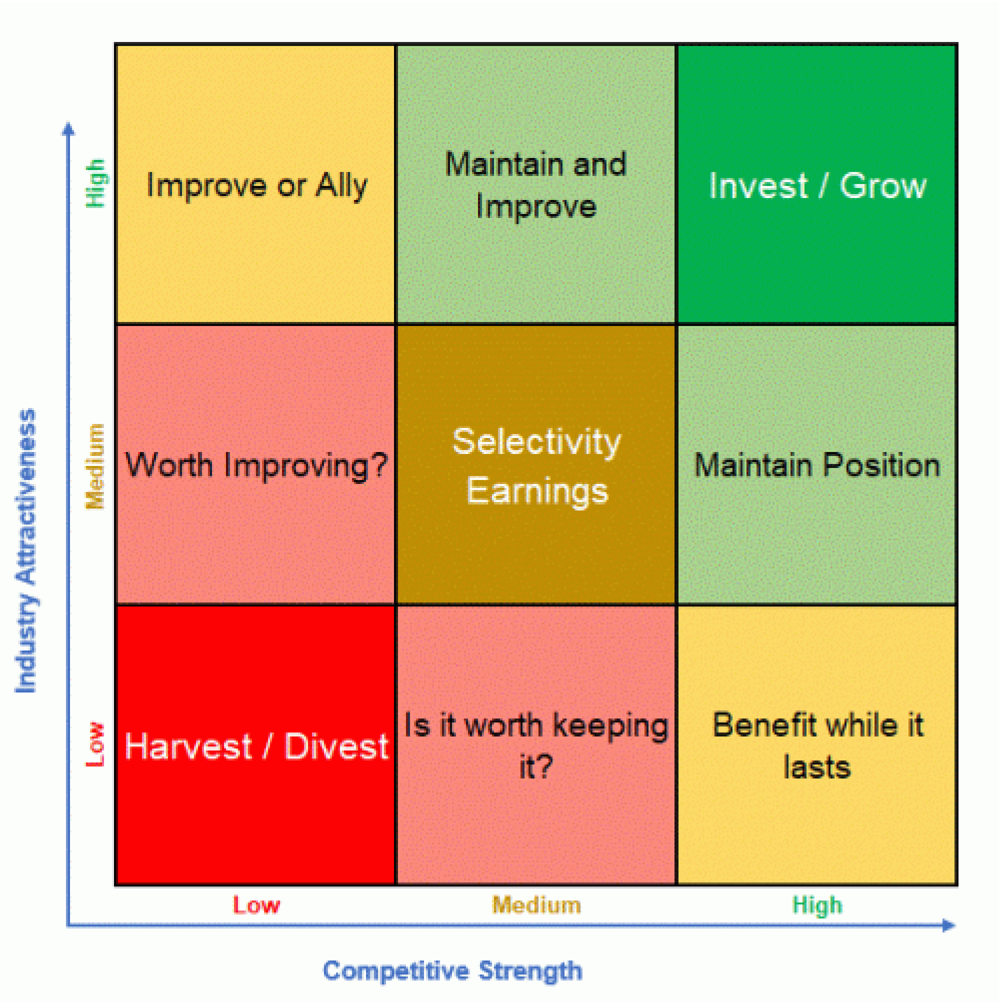

Multifactor (GE McKinsey) matrix

Market Segment Attractiveness	**Business Strengths**
Market segment size	Market segment share
Market segment potential	Profitability record
Market segment growth rate	Liquidity
Ability to use available resources	Financial leverage
Potential profit margins	Distribution facilities
Likely competitor resources	Brand value
Technological change	Marketing skills
Barriers to entry	Production capacity
Barriers to exit	Technological expertise
Regulatory constraints	Modernity of plant and equipment
Social factors	Raw materials position
Degree of vertical integration	Government relations
Customer service valued	Sales force
	Service levels

Identify factors	Based on opinion
Weight factors	Sum of all weight = 100
Rate the firm	From 1 to 10
Factor score	Weight x rate
Segment/ firm score	Sum of all scores

BCN vs. GE McKinsey

Comparison criteria	**Growth-share matrix**	**Multifactor matrix**
Criteria	Limited but unambiguous	Unlimited but disputable
Measures	Basically objective	Highly subjective
Realism	May be limited	May have more
Manipulate entries	Difficult	Easy
Grouping tendency of entries	Low market growth/low market share (bottom right)	High/high, high/medium, medium/high, medium/medium (top right)
Implementability	Easy	More difficult
Communicability	Easy	More difficult
Application across firm	Single set of criteria	Multiple sets of criteria
Accommodates new businesses	Not well	Yes
Explicit consideration of risk	No	Yes, if required
Appropriate for fragmented markets	No	Yes
Underlying focus	Cash flow	ROI
Sensitivity to market definition	Yes	Yes
Sensitivity to basic assumptions	Yes	Yes

End of Session 14 – thanks.