

Chapter 6

Product Portfolio Analysis

Dr. Narender Yadav, Heena Jindal

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INTRODUCTION

A *portfolio* is a group of investments that are all owned by the same person or business. Portfolio may be described as a bundle of securities. These investments frequently consist of **stocks** which are investments in specific companies, **bonds** which are investments in debt with the intention of earning interest, and **mutual funds** which are simply pools of investor funds that are invested by experts or in accordance with indices. Thus, it is the mix of assets.

Portfolio Analysis is the process of reviewing or evaluating each component of a company's entire portfolio of securities or goods. The review is carried out to carefully analyse risk and return. Regular portfolio analysis enables the investor to adjust the portfolio's allocation in response to shifting market conditions and other circumstances. The study aids in proper resource and asset distribution among the portfolio's various components.

PORTFOLIO MANAGEMENT

Making judgments regarding investment mix and strategy, matching investments to goals, allocating assets for both individuals and institutions, and balancing risk & performance are all parts of portfolio management. Portfolio management is the practise of choosing the ideal investing strategy for the individuals with the least amount of risk and highest potential return. Additionally, it refers to managing a person's investments in bonds, stocks, cash, mutual funds, etc. to ensure that he makes the maximum money possible within a given time frame. Money managed by a person under the expert leadership of a portfolio manager is described as

portfolio management. To have a risk return trade off, it is done by examining the strengths, weaknesses, opportunities, and dangers in various investment possibilities. Portfolio management is all about strengths, weaknesses, prospects, and risks in the choice of debt v/s. equity, domestic v/s. international, growth v/s. safety, and many other trade-offs confronted in the effort to increase return at a given appetite for risk. The combination of several equities in a portfolio is all that it is. The foundation of portfolio management is an understanding of market dynamics.

Individuals are given the optimum investment plan via portfolio management based on their income, budget, age, and risk tolerance. Portfolio management reduces the risks associated with investment while simultaneously raising the likelihood of success. Portfolio managers are aware of their clients' financial requirements and offer the best and most risk-effective investment strategy for them. Portfolio management gives portfolio managers the ability to provide customers specialised investment solutions based on their wants and needs.

PRODUCT PORTFOLIO ANALYSIS

It should be obvious that a survey of a company's various products at any one time would show various stages of growth, maturity, and decline. Any company's goal should be to consistently increase profitability rather than to make quick money. A systematic review and investigation of the company's products and markets are vital to pursuing an active and violent policy towards planning effective approaches for products in the growth and mature phases and an innovative new product development policy to ensure tomorrow's profitability and to prepare for divestment or harvesting of declining products in shrinking markets.

The ground-breaking work done by *Boston Consulting Group's (BCG)*, we now have a systematic process for identifying every product a firm produces, considering its current position and future opportunity for financial gain. Product portfolio analysis is what it's called, and it gives a foundation for allocating today's resources to optimize returns by maximising the commercial potential of tomorrow. Analysis of a portfolio's performance is for a business to achieve its goals; it must balance cash flow, sales growth, and risk. The conceptual framework of the portfolio analysis has two key components: One is the market share, which is the proportional market share, and another is the market expansion. The management of your product portfolio is very similar to the management of a stock portfolio. You must buy some to increase dividends currently paid, some to expand, and some to release funds for more profitable investments. A grid with one dimension reflecting the relative market share and the

other the market growth rate is a good and straightforward way to depict all of this. Universally accepted that market share is a key factor in strategic planning.

In pharmaceutical marketing, it is helpful to perform a product portfolio analysis on two different levels. First, look at each of your big brands at the level of the specific product or brand and secondly, for each therapeutic category in which you are competing. In other words, the star opportunities in each therapeutic category that might not be as visible today, such an approach would aid in identifying and devising successful tactics to exploit even the relatively tiny but potentially enormous opportunities of tomorrow. You need to keep an eye out for the new sub-segments.

HOW ARE PLC AND PRODUCT PORTFOLIO ANALYSIS INTERRELATED?

PLC and product portfolio analysis are two ideas that are connected in some ways. PLC and portfolio analysis must therefore be included in the product evaluation process. Here are a few crucial justifications:

- The fundamental principle of PLC is that it serves as an effective planning tool and offers crucial strategic guidance throughout the various stages of both product and market life cycles.
- Second, PLC analysis suggests the amount of promotional activity needed at various stages of a product's and its market's life cycle.
- Thirdly, by prolonging the life cycle of a product and even the market, a marketer would be able to take advantage of hidden or latent opportunities. Thus, PLC is futuristic.

Product portfolio analysis classifies products into today's profit earners and tomorrow's potential profit earners by considering a product's ability to generate cash and how cash is used. Therefore, the product portfolio analysis effectively gives the company's strategic directions. The main goal of portfolio analysis is to make the resource allocation process as efficient as possible. The relative market share and the rate of market growth serve as important benchmarks for assessing the current position of the company's products and choosing the best course of action for their future. When you look more closely, you will see that the main goal of portfolio analysis is to determine the necessary promotional effort while also optimising the resource allocation for the company's products based on their current position and intended future direction. Although the methodology for analysing PLC, product portfolio, and major determinant factors may vary, the goal is still the same. You should conduct product reviews and analyses from a variety of perspectives to gain a better understanding of the

strategic actions that are required at various stages of the product and market life cycles. By fostering and growing the company's stars and prolonging the product life cycle through creative marketing techniques, you would be able to secure future growth potential while bringing stability to the business through current profit generators.

BOSTON MATRIX

These ideas are simply combined in the Boston grid or matrix, which has significant business consequences. It's important to note that the Boston Matrix does not use earnings or profitability as a factor in determining its composition. Because profits are not always a reliable gauge of the performance and analysis of a portfolio. Instead, market share is used as a determining factor because it suggests that your unit cost should be lower the bigger your volume. In other words, your profitability ought to be substantially better than all your rivals if you have the highest market share (and hence the most substantial volume). Profits are not always a reliable predictor of future growth because they frequently reflect changes in the company's liquid assets, such as inventory, capital assets, and receivables. Since cash flow represents a company's capacity to generate cash, which is necessary to expand its product line, it has been viewed as a key determinant factor. Your items are categorised on the Boston matrix based on how well they can generate revenue and how well they can use that revenue for marketing. A Boston matrix model is shown in **Figure 6.1** for portfolio analysis.



LOW

CASH COWS

DOGS



Figure 6.1: Matrix quadrants

Although the axes on this grid have arbitrary labels, they are nonetheless very useful. Low market growth is defined as less than 10%, and strong market growth is defined as more than 20%. A ratio is used to represent relative market share. For instance, if your market share is 20% and that of your main competitor is also 20%, the ratio is 1:1; but, if your competitor's market share is just 10% as opposed to your 20%, the ratio is more advantageous (to your firm) 2:1. In actuality, this ratio serves as a measure for market dominance. The graphic labels that are associated to each of the four product categories provide some insight into how the products in each quadrant might develop. Each quadrant of the grid has different strategic implications.

- **Quadrant I:** As they are items with a large market share in areas with rapid growth, the products in this quadrant are appropriately referred to as Stars. They serve as the foundation for tomorrow's economy. They might or might not produce enough cash flow at this time to support their rapid expansion. One needs to carefully consider their potential and current position. They demand tender care. Even though their cash flow right now isn't so great, you shouldn't deprive them of the money they need to support their growth. That would only have the effect of stopping them from developing into significant future sources of cash flow.
- **Quadrant II:** Products in this quadrant are the most challenging to deal with and frequently raise the age-old dilemma that Shakespeare's Hamlet encountered: To be (Vigorously promoted) or not to be? (Promoted because of the low market share); thus, they are known as question marks for this reason. These products frequently provide a marketing professional with a conundrum because their cash flows are frequently insufficient to support their expansion. To gain market share and boost volume and eventually become substantial cash generators, they need

large infusions of capital. Despite the market's high growth rate, a large investment is required. that is why the question mark.

- **Quadrant III:** This quadrant's products are good cash generators. Despite having a large market share, they operate in sectors with poor growth. Therefore, increasing market share would be prohibitively expensive. So, after careful consideration, the money created by these items should ideally be put in Stars (high growth products and prospects), or even in Question marks. They are referred to as cash cows since these items provide enough money to finance the company's future profit-makers. But there is one word of caution. These cash cows may still have many productive and rewarding years left in them, so you shouldn't milk them dry. The shrewd marketer might take advantage of this by imaginatively extending the lifespan of these products.
- **Quadrant IV:** Products in this quadrant have minimal market share and either moderate or no growth. These goods might not be providing a sufficient return on investment (ROI). They demand an excessive quantity of marketing work. Their futures are also dismal. They frequently cause a business to lose money. These goods are referred to as Dogs. At that, they are underdogs. Although it is in our nature to root for the underdog, in marketing one should dispassionately adopt a strategy of either harvesting or divesting so that funds can be released for investing in the top dog products, i.e., Stars. Peter Drucker very aptly described these products as investments in managerial ego. (Table 6.2)

Table 6.2 Various attributes and strategic implications of the products in Matrix Quadrants

Quadrant	Investment attribute	Earning attribute	Cash-flow attribute	Strategy implication
Stars	Continual investment for capacity expansion	Low to high	Negative cash flow	Continue to increase market share
Question marks	Heavy investment	Negative to low	Negative cash flow	Assess chances of dominating segment

Cash cows	expenditure for capacity maintenance	High	Positive cash flow	Maintain share and leadership
Dogs	Low expenditure	High to low	Positive cash flow	Plan an organized withdrawal

Now more than ever, the art and science of managing a product portfolio become very evident. The ideal process for producing a product entail turning question marks into stars and then those stars into cash cows. The wise use of the extra money generated by the cash cows in stars, which will become tomorrow's main profit-makers (cash cows), and in a few carefully chosen question marks, which are likely to become stars tomorrow and possibly cash cows the day after tomorrow, is inherent in this ideal product development sequence. The marketing professional should exercise caution when spinning the fortune wheel because it is a cyclical process. This cycle's anticlockwise motion is one of its characteristics. Without a doubt, the cyclical movement is speculative. However, it is helpful in that it shows the most likely course and the optimal order in which a business can grow its products. The eternal product development cycle is a concept that marketers are as fixated on as perpetual motion is to physicists.

Relationship between PLC and BCG Matrix

By starting the introduction stage in the question mark quadrant and continuing through star quadrant growth, the Boston Consulting Group's product portfolio matrix approach can be linked to the product's lifecycle. The maturation stage begins as one moves from the star to the cash cow quadrant. Decline is positioned between the cash cow and the dog quadrants (**Figure 6.2**). It's ideal to begin in the introduction stage, gain market share in the growth stage, attain a dominant position when the product/market segment enters its maturity stage, and maintain this dominant position until the product/market segment enters its decline stage, and then decide on the optimum point for liquidation.

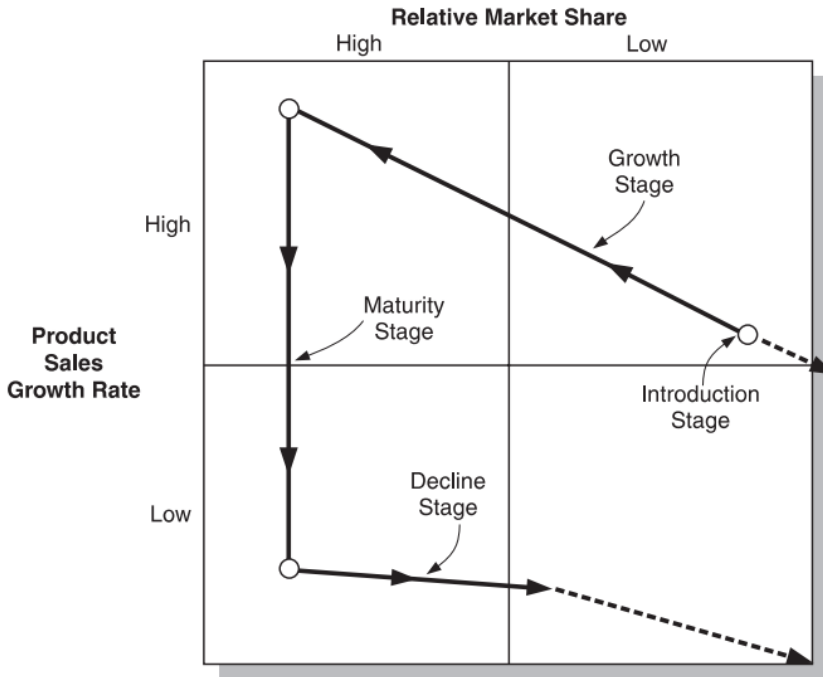


Figure 6.2: Example of balanced product portfolio

Stepwise methods for preparing a BCG Matrix

The Boston Consulting Group recommends the following procedure to develop the business portfolio matrix and identify the appropriate strategies for various products.

- Classify diverse company activities into distinct business segments or Strategic Business Units (SBUs).
- For each business segment, determine the market's growth rate. This is plotted on a linear scale later on.

$$\text{Market Growth Rate} = \frac{(\text{Total market this year} - \text{Total market previous year}) \times 100}{\text{Total market previous year}}$$

- Determine the relative size of each business segment within the organisation by compiling its employed assets.
- Estimate the market share proportions of the various business segments. Typically, this is plotted on a logarithmic scale.

$$\text{Relative Market Share} = \frac{\text{Product's Sales current year}}{\text{The leading competitor Sales in current year}}$$

- Place each business in a matrix based on its relative market share and growth rate. A bubble represents the size of the business, while a circle whose diameter corresponds to the business's assets.

It has been suggested, for precise plotting, that the radius of a bubble corresponding to a business/product be defined as follows:

$$r = \text{square root of } (P * R^2)$$

Where, R = radius of the large circle representing total company sales, and

P = sales of a product as percentage (expressed in decimal) of the total sales.

There are four quadrants, each divided by an arbitrary line. 10 percent volume growth is a common threshold for distinguishing high and low growth enterprises, and a market share of 1.5 X in high growth industries can distinguish the Stars from the Question Marks. For low-growth businesses, however, IX is the ideal relative market share divided between Cows and Dogs. These separating lines, however, are only approximate guides and can be modified if necessary.

- **Balanced Product Portfolio:** A well-balanced portfolio is shown in **Figure 6.3**. This company has three cash cows that, when they reach maturity, will bring growth and substantial cash returns. Two of the company's four "question marks" present good investment opportunities at a level that the company's cash cows should be able to sustain (based on the area of the circles). Dogs do exist in the firm, but they may be controlled so that the company does not lose money.

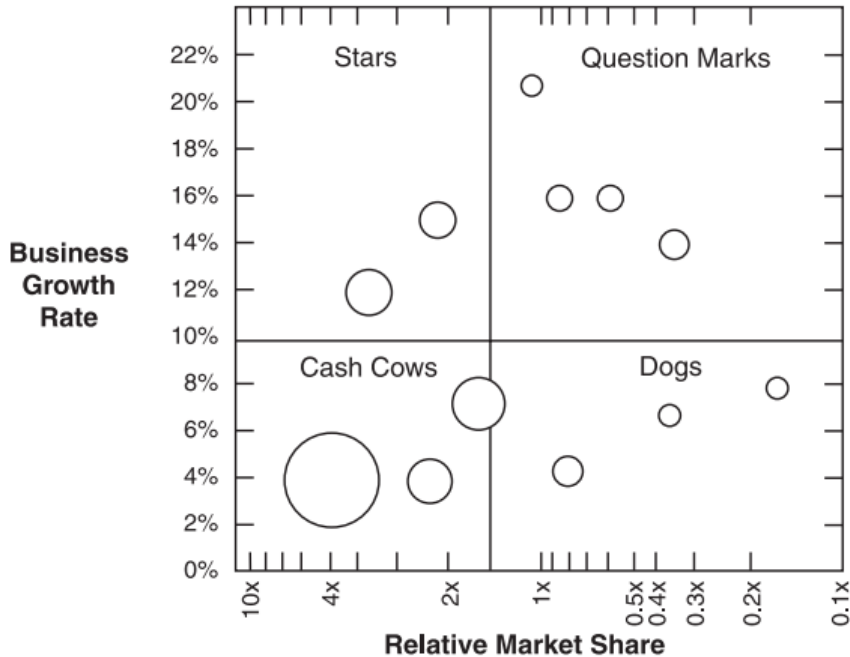


Figure 6.3: Example of balanced product portfolio

Unbalanced Product Portfolio: There are four types of unbalanced product portfolios:

- Due to inadequate cash flow, profits, and growth, there are an excessive number of losers.
- Due to insufficient cash flow and inadequate profits, there are an excessive number of question marks.
- Due of insufficient growth and excessive cash flow, there are an excessive number of profit producers.
- There are too many developing winners due to high financial demands, excessive demands on management, and uncertain growth and earnings.

Figure 6.4 depicts an uneven unbalanced portfolio. There is only one cash cow, three question marks, and no stars at the company. Thus, the company's cash position is insufficient and cannot maintain the question marks. The corporation may distribute available funds proportionally among all question marks. Additionally, dogs may receive periodic monetary feeding. In five years, if the corporation maintains its current strategy, it may find itself in a precarious position, especially as the cash cow approaches its demise. In order to take corrective action, the corporation must acknowledge that it

cannot provide evidence for all its question marks. It must select one or two of its three question marks and appropriately fund them to become stars. In addition, the exchange of currency for pets should be strictly prohibited. Considered in terms of its portfolio, the company's strategic option is evident. It cannot finance equally all question marks and pets.

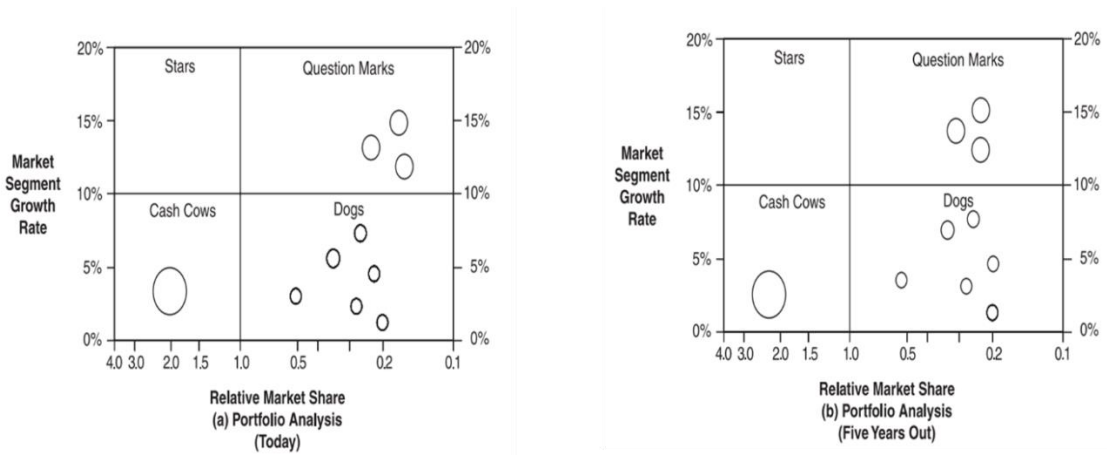


Figure 6.4: Example of unbalanced product portfolio

The portfolio matrix emphasises the true fundamentals of businesses and their interrelationships within the portfolio. A multiproduct, multimarket corporation cannot design a successful strategy without understanding the interdependencies of its various operations.

BCG Matrix of Hindustan Unilever Ltd

Dogs, Stars, Cash Cows, and a Question Mark comprise the BCG Matrix of HUL (Prominent products of HUL shown in **Figure 6.5**). In this analysis of HUL's BCG Matrix (**Figure 6.6**), we will examine the company's low growth products, products that attract sales, products with high growth, and products that may attract sales or become low growth in the future.

Food Brands	Personal Care Brands	Home Care Brands
         	                   	      

Figure 6.5: Range of product of hindustan unilever ltd.

- **Dogs:** HUL's dogs are: 1. Taaza 2. Brooke Bond Sehatmand 3. Bru Brooke Bond Sehatmad should be sold because customer preferences and dietary needs have shifted from tea containing vitamin B to tea that inhibits oxidation. As natural products are a rich source of vitamins, the demand among health-conscious individuals has increased for vitamin B rather than oxidation-inhibiting green tea.
- **Stars:** The HUL's stars are 1. AXE Deodorant 2. Fair & Lovely 3. Lakme Anti Ageing 4. Vim 5. Wheel 6. Lifebuoy 7. Lux 8. Kquality Walls 9. Kissan Jam 10. Knorr Soup.

These products account for the majority of the market share. AXE deodorant, for instance, contributes nearly 25 percent of the market share. The same holds true for HUL's other stars.

- **Cash Cows:** HUL's Cash cows are 1. Shampoos, 2. soaps, 3. Surf Excel 4. daily morning things and fast foods. www.sunsilkgangofgirls.com is the largest group for young Indian women that Sunsilk has created. Sunsilk is creative and offers a wide variety of products, including those that are soft and smooth, thick and long,

repair damaged hair, prevent hair loss, impart a stunning black shine, and eliminate dandruff. Identical measures are taken for the other cash cows.

- **Questions:** The HUL question marks are 1. Close Up 2. Pepsodent 3. Annapurna 4. Fair & Lovely Menz Active 5. Domex 6. Rin 7. Breeze 8. Taj Mahal Tea Bag 9. Kissan Ketchup 10. Knorr Meal Maker.

As new market entrants or competitors vying for real market share in an environment of rapid market change, efforts are made to ensure that they obtain a portion of the pie. Pepsodent has made a significant modification to its germ control and whitening toothpaste by considering the sensitive and gum care sections. Knorr Soups considers the entire soup spectrum, from tomato and vegetable soups to Chinese and chicken soups.



Figure 6.6: BCG matrix of hindustan unilever ltd