Study Material

Class - M. Com
Subject Code – MC 4.1
Subject – Strategic Management
Topic – GE-McKinsey Nine-Box Matrix

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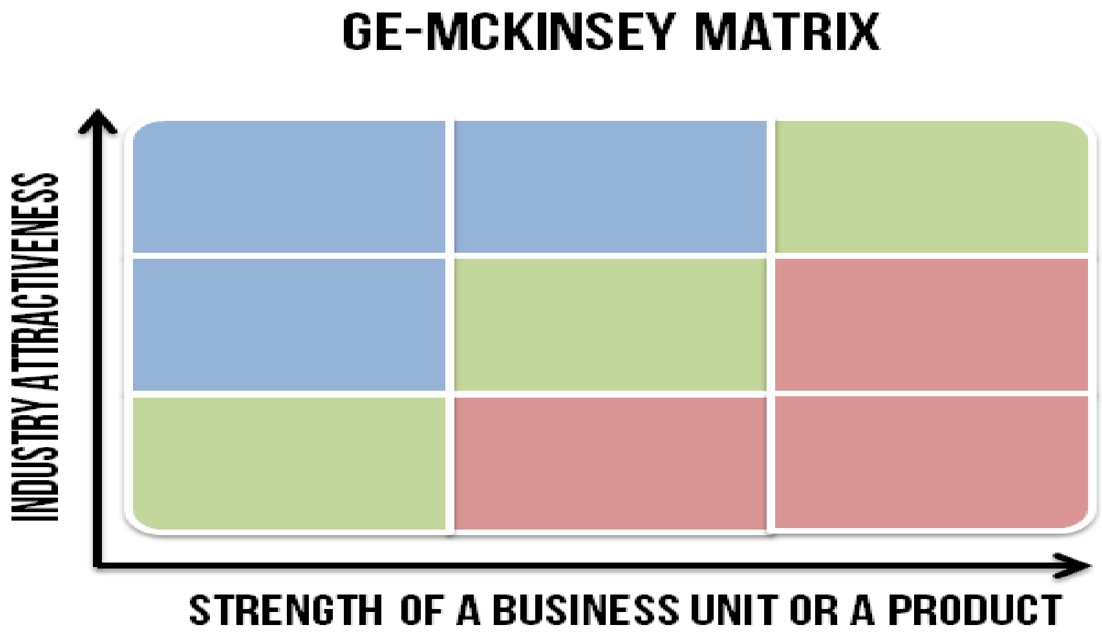
Learning outcome from this study material

- Explanation of GE-McKinsey Nine-Box Matrix as a managerial strategy
- Basis for evaluation of business units
- Advantages and Disadvantages

GE-McKinsey nine-box matrix

Is a strategy tool that offers a systematic approach for the multi business corporation to prioritize its investments among its business units.

GE-McKinsey is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit.



It is a framework that evaluates business portfolio, provides further strategic implications and helps to prioritize the investment needed for each business unit. In 1970s, General Electric was managing a huge and complex portfolio of unrelated products and was unsatisfied about the returns from its investments in the products. At the time, companies usually relied on projections of future cash flows, future market growth or some other future projections to make investment decisions, which was an unreliable method to allocate the resources. Therefore, GE consulted the McKinsey & Company and as a result the nine-box framework was designed. The nine-box matrix plots the Business Units on its 9 cells that indicate whether the company should invest in a product, harvest/divest it or do a further research on the product and invest in it if there're still some resources left. The Business Units are evaluated on two axes: industry attractiveness and a competitive strength of a unit.

Industry Attractiveness

Industry attractiveness indicates how hard or easy it will be for a company to compete in the market and earn profits. The more profitable the industry is the more attractive it becomes. When evaluating the industry attractiveness, analysts should look how an industry will change in the long run rather than in the near future, because the investments needed for the product usually require long lasting commitment.

Industry attractiveness consists of many factors that collectively determine the competition level in it. There's no definite list of which factors should be included to determine industry attractiveness, but the following are the most common:

- Long run growth rate
- Industry size
- Long run growth rate
- Industry profitability: entry barriers, exit barriers, supplier power, buyer power, threat of substitutes and available complements (use Porter's Five Forces analysis to determine this)
- Industry structure (use Structure-Conduct-Performance framework to determine this)
- Product life cycle changes
- Changes in demand
- Trend of prices

- Macro environment factors (use PEST or PESTEL for this)
- Seasonality
- Availability of labour
- Market segmentation
- Competitive strength of a business unit or a product

Along the X axis, the matrix measures how strong, in terms of competition, a particular business unit is against its rivals. In other words, managers try to determine whether a business unit has a sustainable competitive advantage (or at least temporary competitive advantage) or not. If the company has a sustainable competitive advantage, the next question is: "For how long it will be sustained?"
The following factors determine the competitive strength of a business unit:

- Total market share
- Market share growth compared to rivals
- Brand strength (use brand value for this)
- Profitability of the company
- Customer loyalty
- Business unit strength in meeting industry's critical success factors
- Strength of a value chain (Value Chain Analysis and Benchmarking should be used to determine this)
- Level of product differentiation
- Production flexibility

Advantages

- Helps to prioritize the limited resources in order to achieve the best returns.
- Managers become more aware of how their products or business units perform.
- It's more sophisticated business portfolio framework than the BCG matrix.
- Identifies the strategic steps the company needs to make to improve the performance of its business portfolio.

Disadvantages

- Requires a consultant or a highly experienced person to determine industry's attractiveness and business unit strength as accurately as possible.

- It is costly to conduct.
- It doesn't take into account the synergies that could exist between two or more business units.

Difference between GE McKinsey and BCG matrices

GE McKinsey matrix is a very similar portfolio evaluation framework to BCG matrix. Both matrices are used to analyse company's product or business unit portfolio and facilitate the investment decisions.

The main differences are :

Visual difference. BCG is only a four cell matrix, while GE McKinsey is a nine cell matrix. Nine cells provide better visual portrait of where business units stand in the matrix. It also separates the invest/grow cells from harvest/divest cells that are much closer to each other in the BCG matrix and may confuse others of what investment decisions to make. GE-McKinsey matrix compared to BCG matrix visually

Comprehensiveness. The reason why the GE McKinsey framework was developed is that BCG portfolio tool wasn't sophisticated enough for the guys from General Electric. In BCG matrix, competitive strength of a business unit is equal to relative market share, which assumes that the larger the market share a business has the better it is positioned to compete in the market. This is true, but it's too simplistic to assume that it's the only factor affecting the competition in the market. The same is with industry attractiveness that is measured only as the market growth rate in BCG. It comes to no surprise that GE with its complex business portfolio needed something more comprehensive than that.
