GE/Mckinsey Matrix

**Brief History**

In the late sixties and early seventies, while the Boston Consulting Group were devising the BCG or Growth Share matrix, General Electric, a leading corporation in the United States, were also looking at concepts and techniques for strategic planning. The firm was disappointed in the profits that they had made from their investments in the various businesses, which suggested flaws in GE’s approach to investment decision-making. They became interested in the Growth-Share matrix and liked the visual approach depicting the positioning of a firm’s businesses on the matrix. General Electric, from all their own strategic planning research, objected to the two dimensional matrix which relied on market growth for industry attractiveness and relative market share for business strength.

**McKinsey and Company**

GE asked McKinsey and Company, a consulting company in the USA, to develop a portfolio approach with a wider dimension than the BCG matrix. In 1971 McKinsey and Co developed the business screen for General Electric to differentiate the potential for future profit in each of the 43 strategic business units. This matrix is also known as the industry attractiveness – business strength matrix and the nine-box matrix.

**Strategic Emphasis**

This matrix was designed to overcome the shortfalls that companies were encountering with the BCG matrix and to fill the requirement to compare numerous and diverse businesses. The scope of application for this model extends from a corporate level to a business level incorporating the products making up the business.

**Flexibility**

The matrix can be described as a multifactor portfolio model and it has a greater flexibility compared to the BCG, in terms of the elements that can be included. The matrix allows a company to assess the fit between the organisational competencies and the business/product offerings. It also introduces the forecasted positioning of businesses/products on the matrix facilitating the strategic planning process. The matrix has nine cells compared to the BCG four cells and the scores on the axis can be rated low, medium, high compared to the BCG high and low.
**The Approach**

This model suggests that the long run profitability of each unit is influenced by the unit’s business strength and that the ability and incentive of a firm to maintain or improve its position in a market depends on the industry attractiveness.

**Factors that Affect Industry Attractiveness**

Whilst any assessment of Industry attractiveness is necessarily subjective, there are several factors which can help determine attractiveness. These are listed below:

- Industry size
- Industry growth
- Market profitability
- Pricing trend
- Competition intensity
- Overall risk and returns in the industry
- Opportunity to differentiate products and services
- Distribution structure

**Factors that Affect Business Strength**

- Strength of assets and competencies
- Relative brand strength
- Market share
- Customer loyalty
• Relative cost position
• Distribution strength
• Record of technological or other innovation
• Access to finance and other investment resources

**Who Defines the Factors?**

The factors are usually identified by a representative, experienced group of managers from the firm including corporate, business and functional managers.

An explicit understanding of what constitutes a potentially profitable environment is essential to the formulation of strategy and for the understanding of the potential impact of competitors.

A market or industry is considered to be attractive if its potential for providing a significant contribution to objectives for earnings growth and return on investment is judged to be high.

**Examples of Industry Attractiveness Factors**

Different strategists and consultants have devised different sets of variables for industry or market attractiveness indicating that there is no consensus regarding the factors that make up industry attractiveness but the final factor selection is a subjective evaluation conducted by the firm.

Not all of the factors have equal attractiveness to every company. They must be weighted accordingly to determine how much each factor contributes to the attractiveness of the industry to which the business belongs.

The criteria or factors must be consistent for all the industries that the firm competes in so that comparisons between the various strategic businesses can be made.

**Plot Configuration**

In the original GE McKinsey matrix, business strength is plotted on the vertical axis; the industry attractiveness on the horizontal axis and the size of the circle represents the size of the industry with a shaded wedge representing the firm’s current share of the industry. The matrix is divided into nine boxes.

Note: In the time period following the introduction of the GE McKinsey matrix, the axes have been changed and more often than not the industry attractiveness constitutes the vertical axis while the business strengths are plotted along the horizontal axis.
This approach considers not only the objective factors such as sales, profit, ROI for example but also gives weight to the subjectively estimated factors such as volatility of market share, technology, employee loyalty, competitive stance and social need.

The GE-McKinsey model can be likened to the more generalised and well-known SWOT (strengths, weaknesses, opportunities, threats) analysis as it allows the addition of both internal and external factors in the matrix construction. The competitive position or business strength represent the internal capabilities which are controllable by the company while the external factors which are not controlled by the company (opportunities and threats) make up the industry attractiveness.

**Value of the Model**

This portfolio model also allows the business/product to be analysed in terms of dimensions of value to the organisation (Industry Attractiveness) and dimensions of value to the customer (Relative Business Strength). The GE McKinsey or Attractiveness-Strength matrix is important primarily for assigning priorities for investment in the various businesses of the firm, it is a guide for resource allocation and does not deal with cash flow balance, as does the BCG.
Model Use and Applicability

1. The three cells at the top left hand side of the matrix are the most attractive in which to operate and require a policy of investment for growth – these are usually coloured green.

2. The three cells running diagonally from left to right have a medium attractiveness, are coloured yellow and the management of businesses within this category should be more cautious and with a greater emphasis being placed on selective investment and earning retention.

3. The three cells at the bottom right hand side are the least attractive, therefore coloured red and management should follow a policy of harvesting and / or divesting unless the relative strengths can be improved.
Channon and McCosch devised a set of generic investment strategies for the GE McKinsey matrix as labelled in the previous diagram. A. T. Kearney also put forward guidelines for strategies in the different boxes and where these have not been incorporated they are mentioned below. (ATK = A.T. Kearny)

- **Grow / Penetrate** – These businesses are a target for investment, they have strong business strengths, are in attractive markets and they should therefore have high returns on investment and competitive advantage. They should receive financial and managerial support to maintain their strong position and to continue contributing to long-term profitability.

  ATK – Seek dominance
  Grow
  Maximise investment

- **Invest for Growth** – Businesses here are in very attractive industries but have average business strength. They should be invested in to improve their long-term competitive position.

  ATK – Evaluate potential for leadership via segmentation
  Identify weaknesses
  Build strengths

- **Selective Investment or Divestment** - These businesses are in very attractive markets but their business strength is weak. Investment must be aimed at improving the business strengths. These businesses will probably have to be funded by other businesses in the group as they are not self-funding. Only businesses that can improve their strengths should be retained – if not they should be divested.

  ATK – Specialise
  Seek niches
  Consider acquisitions

- **Selective Harvest or Investment** – Businesses in this box have good business strength in an industry that is losing its attractiveness. They should be supported if necessary but they may be self-supporting in cash flow terms. Selective harvesting is an option to extract cash flow but this should be done with caution so as not to run down the business prematurely.

  ATK – Identify growth segments
  Invest strongly
  Maintain position elsewhere
• **Segment and Selective Investment** – Businesses with average business strengths and in average industries can improve their positions by creative segmentation to create profitable segments and by selective investment to support the segmentation strategy. The business needs to create superior returns by concentrating on building segment barriers to differentiate themselves.

  ATK = Identify growth segments
  Specialise
  Invest selectively

• **Controlled Exit or Harvest** – Businesses with weak business strengths in moderately attractive industries are candidates for a controlled exit or divestment. Attempts to gain market share by increasing business strengths could prove to be very expensive and must be done with caution

  ATK = Specialise
  Seek niches
  Consider exit

• **Harvest for Cash Generation** – Strong businesses in unattractive markets should be net cash generators and could provide funds for use throughout the rest of the portfolio. Investment should be aimed at keeping these businesses in a dominant position of strength but over investment can be disastrous especially in a mature market. Be aware of competitors trying to revitalise mature industries

  ATK = Maintain overall position
  Seek cash flow
  Invest at maintenance level

• **Controlled Harvest** – They have average business strengths in an unattractive market and the strategy should be to harvest the business in a controlled way to prevent a defeat or the business could be used to upset a competitor.

  ATK = Minimise investment
  Position to divest

• **Rapid Exit or Attack Business** – These businesses have neither strengths nor an attractive industry and should be exited. Investments made should only be done to fund the exit.
ATK – Trust leaders statesmanship
   Go after competitors cash generators
   Time exit and divest

**Best Use**

- Use of the GE McKinsey matrix is recommended if an organisation is made up of many business units or if a business unit is made up of a number of different product lines. General Electric used this matrix at five different levels in the organisation: product, product line, market segment, SBU, business sector.

- The GE McKinsey matrix is important for assigning priorities for investment in the various businesses of the firm and is guidance for resource allocation. (Hax & Majluf 1983) Investment is assigned according to the generic strategies laid out above but generally is given to businesses who show strength in an attractive market.

- This matrix can be used at all levels within the organisation. At the corporate level, the portfolio of businesses making up the firm can be analysed on the matrix, at the business unit level, the products making up the business’s portfolio can be mapped out onto the matrix

- This matrix allows one to set a strategy for the future after mapping the portfolio in the present and forecasting the future positions by assessing the factors constituting the business strengths. It allows an organisation to focus on the strengths and weaknesses of the business units or products.

**Model weaknesses**

- This model has been criticized by some authors for its ‘pseudo-scientific’ approach referring to the method of weighting the factors before assessing them. Some critics ascertain that the factors of business strength and some of the industry attractiveness factors cannot be measured.

- It can also be difficult to impose a uniform standard among businesses so that the final portfolio matrix will be consistent in terms of the criteria. Some firms develop standard lists of internal and external factors but each business/product is different and factors will vary accordingly.

- This portfolio model relies heavily on managerial judgement in identifying, weighting and assessing the relevant factors
• Composite dimension matrices such as this one may mask important differences among products. (e.g. If business strength is made up of two factors weighted similarly, one product may be assessed as very low on the one factor and very high on the other one. Another product may score vice versa but both will be positioned on the same spot on the business strength axis.)

• The simplicity of the BCG matrix has been criticised in the past but the more complex GE matrix has also been accused of being too complicated and taking too long to complete.

• The GE McKinsey matrix pays too little attention to the business environment